

WASHINGTON, D. C. 20505

GAO

Office of Legislative Counsel

OLC 78-0316/a

8 FEB 1978

Mr. Frank C. Conahan
Associate Director
International Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Conahan:

Thank you for your letter of January 13 which forwarded a series of questionnaires on our uses of macroeconomic models. It is our belief that we cannot respond to many of the questions on macroeconomic modeling on an unclassified basis. We also believe that much of the information requested does not bear on the use of such models in intelligence production. At the same time, we fully recognize the purpose and the importance of the GAO survey.

The following sub-paragraphs, consisting of unclassified information, will hopefully be helpful to you in completing your survey:

° The CIA devotes annually about two man-years of effort in developing and running macroeconomic models of the major foreign developed economies. The analysts working on this project are at the GS-13/14 grade level. A manager (GS-16) spends about 5 percent of his time supervising the project.

° The CIA spends annually less than \$60,000 on external research contracts for macroeconomic modeling of Free World developed countries. This includes \$10,000 for the Chase Econometric Print Service, and \$50,000 for the DRI Canadian and Japanese models and data bases.

° The CIA analytical effort on communist countries involves an annual expenditure of about two man-years for macroeconomic modeling. The personnel in this effort are at the GS-13/14 level, and are supervised with about 5 percent of the time of a GS-16.

° In modeling less developed economies, the CIA spends annually roughly three-fourths of one man-year at the GS-12/13 level. Supervision is about 2 percent of the time of a GS-16.

° The CIA spends no money and no computer time in running large energy models such as PIES.

Sincerely,

[Redacted]
Acting Legislative Counsel

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cc: Mr. Harvey Finberg
General Accounting Office

Distribution:

Orig - Addee
1 - OLC Subject
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OLC:MMP:kjs (2 Feb 78)

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

JAN 13 1978

The Honorable Stansfield Turner
Director, Central Intelligence Agency

Attention: Office of Legislative Counsel

Dear Admiral Turner:

At the request of the Chairman, Joint Economic Committee, the General Accounting Office will examine various aspects of the use of large-scale models in economic policy formulation by the Federal Government. The initial GAO project under this request is to determine the particular models that are being used for macro-economic forecasting by the executive branch, the purposes for which they are employed, and the extent to which they are used. This review will be carried out by the Program Analysis Division which has responsibility for program evaluation and program information as expressed in the Legislative Reorganization Act of 1970, as amended by the Congressional Budget Act of 1974.

This project has been coordinated with the OMB effort on the President's Reorganization Project to assess the capabilities of Federal agencies to respond to economic analysis and management demands resulting from the increasing complexity of present economic policy choices.

We request that you answer the enclosed questionnaires. Development of the questionnaires has been coordinated, and their results will be shared, with the President's Reorganization Project so as to avoid redundancy and to minimize the imposition on the staff of your agency.

Also enclosed is an agency liaison identification form, which will enable us to maintain communication with the staff member(s) to whom you have assigned responsibility for completion of the questionnaires. Please fill in the identification form and return it at your earliest convenience. We would appreciate having the questionnaires completed and returned to us by January 26, 1978. Envelopes have been furnished for the return of both the liaison form and the questionnaire.

If you have any questions or problems regarding the survey, please contact either Mr. Harvey Finberg on 275-3593 or Mr. David Wax on 275-3584 in the Program Analysis Division of GAO.

The results of this GAO study should assist in more effective understanding and utilization of the process and instruments of economic policy formulation. For this reason, they will be distributed to you and to all other agencies participating in this survey.

Sincerely yours,



Frank C. Conahan
Associate Director

Enclosures

POLICY
LEVEL

Program Analysis Division/GAO
Washington, D.C. 20548

AGENCY USE OF MACRO-ECONOMIC MODELS
A JOINT INQUIRY BY THE
GENERAL ACCOUNTING OFFICE
AND THE ECONOMIC ANALYSIS AND POLICY MACHINERY PROJECT
OF THE PRESIDENT'S REORGANIZATION PROJECT
(POLICY PERSONNEL)

I. INTRODUCTION

This questionnaire is one of two instruments developed by GAO to obtain information regarding the use of macro-economic models by Federal agencies. While there is some overlap in coverage between the two questionnaires, this instrument is specifically directed toward the policy maker, that is, the highest ranking person in the Department or agency directly involved in making decisions related to economic policy. The value of this questionnaire lies in its being answered by the policy maker and not being delegated to a staff assistant or an operations group. The other instrument is directed toward those persons in the Department or agency who have responsibility on the operations level for the actual exercising of the macro-economic models.

Both questionnaires have been coordinated by the General Accounting Office and the President's Reorganization Project to address topics of mutual interest and to meet the information needs of both groups with regard to these topics. Agency responses to these surveys will be shared equally by GAO and the Reorganization Project. However, it should be noted that both groups view this particular inquiry as only a portion of two larger projects that are being undertaken independently and for different purposes.

The GAO is using these questionnaires as initial data gathering instruments in responding to a request of the Joint Economic Committee to examine various aspects of the use of large-scale models in the formulation of Federal economic policies. In particular, the GAO is seeking to determine the specific models that are being used for macro-economic forecasting, the specific purposes for which they are being employed, and the extent to which they are used. GAO is distributing the questionnaires to those agencies known to use macro-economic models and to contribute to deliberations on national economic policies.

GAO is planning to follow this inventory activity with several case studies which will examine how the use of these models has contributed to specific macro-economic policy decisions. However, the selection of agencies to be examined in depth has not yet been completed.

The information obtained by means of these questionnaires, such follow-up interviews as may be necessary, and the case studies will form the core of a GAO Report to the Congress on the use of macro-economic models. Copies of this and any other reports resulting from this review will be provided to all offices responding to the questionnaires.

II. INSTRUCTIONS

In this questionnaire, the words "models" and "modeling" refer to large-scale macro-economic models and their use. We are not interested in regional or sectoral models (e.g., energy, transportation) per se. We are aiming this inquiry at the large macro-economic models that are used either as analytic tools in and of themselves or as tools to generate macro-economic inputs (i.e., as "drivers") to other large-scale models (such as the PIES model in the energy sector).

The questions have been designed to be self-explanatory. If you have problems or need assistance, please call either Harvey Finberg (202-275-3593) or David Wax (202-275-3584) in the Program Analysis Division of GAO.

There is space at the end of the questionnaire for any comments you may wish to make concerning the questionnaire or any related topics.

III. RESPONDENT INFORMATION

1. NAME: _____
2. TITLE: _____
3. TELEPHONE: () _____
Area Code Number
4. Where is your unit located in the agency structure? (Please provide a general organizational sketch.)

IV. RESOURCES

5. Does your unit have a separate, central staff responsible for using macro-economic models? (Check one.)

Yes

No

V. MODEL USES

6. Which macro-models are used for each of the purposes listed below? (If more than one model is checked for a given purpose, please use numbers to indicate their ranking, e.g., 1=primary, 2=secondary)

	Don't know	DR1	Wharton	Chase	BITA (Short term)	BITA (Short term)	Other	None
1) Macro-economic formulation								
a) Monetary								
b) Taxing								
c) General spending								
d) Program impact								
e) Other (Please specify)								
	_____	_____	_____	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____	_____	_____	_____
2) Budget formulation								
3) Program development								
4) Other (Please specify)								
a)	_____	_____	_____	_____	_____	_____	_____	_____
b)	_____	_____	_____	_____	_____	_____	_____	_____

7. Overall, how much confidence do you have in: (1) the output of the models you are using, unadjusted by your staff and (2) the adjusted output resulting from your staff's fine tuning or interpretation? (Check one for (1) and one for (2).)

<u>(1) Unadjusted</u>	<u>(2) Adjusted</u>
<input type="checkbox"/> Not applicable-- never used without adjustments by staff	<input type="checkbox"/> Not applicable-- no adjustments are made by staff
<input type="checkbox"/> Total or almost total	<input type="checkbox"/> Total or almost total
<input type="checkbox"/> Major	<input type="checkbox"/> Major
<input type="checkbox"/> Moderate	<input type="checkbox"/> Moderate
<input type="checkbox"/> Minor	<input type="checkbox"/> Minor
<input type="checkbox"/> Little or no	<input type="checkbox"/> Little or no

8. In general, how would you rate your unit's ability to use existing models and to interpret their results when compared to the efforts of other Federal agencies/Departments? (Check one.)

<input type="checkbox"/> Significantly above average
<input type="checkbox"/> Above average
<input type="checkbox"/> Average
<input type="checkbox"/> Below average
<input type="checkbox"/> Significantly below average
<input type="checkbox"/> No basis to judge

9. In situations in which models might be used, approximately how frequently: (1) are your modeling efforts applied in your agency's/Department's decision process, and (2) should they be applied? (Check one for (1) and one for (2).)

<u>(1) Are Applied</u>	<u>(2) Should be Applied</u>
<input type="checkbox"/> Rarely	<input type="checkbox"/> Rarely
<input type="checkbox"/> Sometimes	<input type="checkbox"/> Sometimes
<input type="checkbox"/> As often as not	<input type="checkbox"/> As often as not
<input type="checkbox"/> Generally	<input type="checkbox"/> Generally
<input type="checkbox"/> Almost always	<input type="checkbox"/> Almost always

10. In situations in which models might be used, what impact: (1) do your modeling efforts have on the current agency/Department decision process, and (2) should they have? (Check one for (1) and one for (2).)

<u>(1) Have</u>	<u>(2) Should Have</u>
<input type="checkbox"/> Significant positive impact	<input type="checkbox"/> Significantly more than present
<input type="checkbox"/> Positive impact	<input type="checkbox"/> More than present
<input type="checkbox"/> No or minor impact	<input type="checkbox"/> Same as present-- skip to question 12
<input type="checkbox"/> Negative impact	<input type="checkbox"/> Less than present
<input type="checkbox"/> Significant negative impact	<input type="checkbox"/> Significantly less than present

11. If you think your unit's modeling efforts are either under utilized or over utilized, what is the primary reason for this situation? (Check only one for either (1) over or (2) under)

<u>(1) Over Utilized</u>	<u>(2) Under Utilized</u>
<input type="checkbox"/> Model limitations are not well understood	<input type="checkbox"/> Usefulness of models not appreciated
<input type="checkbox"/> No budget constraints	<input type="checkbox"/> Lack of staff expertise
<input type="checkbox"/> Model results not as reliable as other techniques	<input type="checkbox"/> Budget problems
<input type="checkbox"/> Models are too easily available	<input type="checkbox"/> Time constraints
<input type="checkbox"/> Other (Please specify) _____	<input type="checkbox"/> Other (Please specify) _____
_____	_____

12. If agency model users were only allowed to list desired assumptions and input data and a central agency maintained physical control over actual use of all macro-economic models, how would such Federal centralized control of macro-economic modeling efforts compare to individual agency control of such efforts? (Check one.)

Individual agency control much superior
 Individual agency control somewhat superior
 Both about equal in value
 Centralized Federal control somewhat superior
 Centralized Federal control much superior

13. Overall, how would the costs associated with centralized Federal control as described above compare with the potential benefits? (Check one.)

Benefits significantly outweigh costs
 Benefits somewhat outweigh costs
 Costs and benefits are equal or almost equal
 Costs somewhat outweigh benefits
 Costs significantly outweigh benefits

VI. METHOD OF MODEL USE

14. Please identify the three individuals within your organization with the major authority to ask questions that lead to your units macro-economic model usage? (Please fill in the blanks.)

1) NAME: _____
TITLE: _____
GS LEVEL: _____
2) NAME: _____
TITLE: _____
GS LEVEL: _____
3) NAME: _____
TITLE: _____
GS LEVEL: _____

Are there many others who can ask such questions?

Yes

No

15. Please identify the three individuals within your organization with the major authority to establish alternative scenarios; that is, to establish general outlines such as high or low growth. (Please fill in the blanks.)

1) NAME: _____
TITLE: _____
GS LEVEL: _____
2) NAME: _____
TITLE: _____
GS LEVEL: _____
3) NAME: _____
TITLE: _____
GS LEVEL: _____

16. Please identify the three individuals within your organization with the major responsibility to translate the scenarios into assumptions about exogenous variables, that is, to translate the outlines into detailed assumptions? (Please fill in the blanks.)

1) NAME: _____
TITLE: _____
GS LEVEL: _____
2) NAME: _____
TITLE: _____
GS LEVEL: _____
3) NAME: _____
TITLE: _____
GS LEVEL: _____

If the responsibility for overseeing this activity has been delegated to subordinates and you do not know the names of the persons who add this last level of detail, please indicate.

persons not known to me by name, please contact _____ for more information.

17. Generally, who in the agency has the major final approval (sign-off) responsibility for modeling results? (Please fill in the blanks.)

NAME: _____

TITLE: _____

GS LEVEL: _____

18. If you have any additional comments on any of the questions or related points or topics not covered, please write your comments in the space below. Your views are greatly appreciated. Thank you.

01C-78-0316/2

1 February 1978

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MEMORANDUM FOR: [REDACTED]
Office of Legislative Counsel

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FROM : [REDACTED]
Chief, Congressional Support Staff, NFAC

SUBJECT : Response to the GAO Questionnaire on
Macroeconomic Models

1. OER feels we cannot respond to many of the questions on macroeconomic modeling on an unclassified basis and that much of the information requested does not bear on the use of such models in intelligence production. At the same time, OER recognizes the purpose and the importance of the GAO survey.

2. To help the GAO complete its survey, the following unclassified information should be useful.

o The CIA devotes annually about two man-years of effort in developing and running macroeconomic models of the major foreign developed economies. The analysts working on this project are at the GS-13/14 grade level. A manager (GS-16) spends about 5 percent of his time supervising the project.

o The CIA spends annually less than [REDACTED] on external research contracts for macroeconomic

25X1

25X1

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○ In modeling less developed economies, the CIA spends annually roughly three-fourths of one man-year at the GS-12/13 level. Supervision is about 2 percent of the time of a GS-16.

○ The CIA spends no money and no computer time in running large energy models such as PIES.

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cc: D/OER